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BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

Arizona Corporation Commission

DOCKETED

JAN 20 2005

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JEFF HATCH-MILLER, Chairman
WILLIAM A. MUNDELL
MARC SPITZER
MIKE GLEASON
KRISTIN K. MAYES

DOCKETED BY

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IN THE MATTER OF THE APPLICATION OF
OAK CREEK PUBLIC SERVICE FOR A RATE
INCREASE.

DOCKET NO. W-01577A-04-0411

DECISION NO. 67514

ORDER

Open Meeting
January 11 and 12, 2005
Phoenix, Arizona

BY THE COMMISSION:

Oak Creek Public Service ("Oak Creek" or Company") is an Arizona public service corporation that provides water utility service to the public in a portion of Yavapai County, Arizona.

On June 2, 2004, Oak Creek filed with the Arizona Corporation Commission ("Commission") an application requesting authority to increase its rates and charges.

On August 3, 2004, the Commission's Utilities Division Staff ("Staff") filed a letter notifying the Company that its application had met the sufficiency requirements of A.A.C. R14-2-103 and classifying it as a Class D utility

On October 18, 2004, Staff filed its Staff Report, recommending approval of an alternative rate schedule.

* * * * *

Having considered the entire record herein and being fully advised in the premises, the Commission finds, concludes, and orders that:

FINDINGS OF FACT

1. Oak Creek provides water utility service to approximately 247 metered customers in a residential subdivision called Lower Oak Estates, which is located approximately eight miles east of Cottonwood, Arizona in Yavapai County.

1 2. The Commission approved the Company's present rates and charges for water service in
2 Decision No. 53439 (February 3, 1983).

3 3. On June 2, 2004, Oak Creek filed an application requesting authority to increase its rates
4 and charges, based on a historical test year ended December 31, 2003. The application included an
5 affidavit indicating that the Company notified its customers of the application and the proposed rates
6 and charges by mail on June 1, 2004.

7 4. On July 2, 2004, Staff filed a letter notifying the Company that its application had not met
8 the sufficiency requirements outlined in A.A.C. R14-2-103.

9 5. On July 26, 2004, the Company filed several revised pages for its application along with
10 additional supporting documentation.

11 6. On August 3, 2004, Staff filed a letter notifying the Company that its application had met
12 the sufficiency requirements of A.A.C. R14-2-103 and classifying it as a Class D utility.

13 7. On September 23, 2004, the Company filed an amendment to its application consisting of
14 an amended schedule of proposed rates and charges. The September 23, 2004 filing indicated that a
15 copy of the amended schedule was mailed to its customers in the Company's September 1, 2004
16 billings.

17 8. Staff's Consumer Services section reports that five customers responded to the notice of
18 the requested rate increase, four of whom objected, and one of whom was in favor. Between the
19 years 2001 through 2004, a total of five complaints have been registered with the Commission, all of
20 which were resolved to the customers' satisfaction.

21 9. Decision No. 54339 found that the corporation holding the Certificate of Convenience
22 and Necessity ("CC&N") for the Company's service territory had been dissolved by operation of law
23 for failure to file annual reports. Decision No. 54339 therefore ordered the Company to make
24 application within 30 days for the transfer of its CC&N and assets to a designated legal business
25 organization. The Staff Report in this matter states that there is no record of the ordered filing, and
26 recommends that the Company again be ordered to make application for transfer of the Company's
27 CC&N and its assets to a designated legal business organization within 30 days. Staff's
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1 recommendation is reasonable. However, because it is possible that it could take more than 30 days
 2 to complete the formation of the new business entity and make the required application, we will
 3 require compliance within 60 days. In order to assure compliance with this requirement, we will also
 4 require that the ordered CC&N and asset transfer application be filed and be found sufficient before
 5 the Company may charge the new rates authorized herein.

6 10. In the test year, as adjusted by Staff, Oak Creek collected total revenue of \$67,222, which,
 7 with adjusted operating expenses of \$72,210, produced an operating loss of \$4,988, for no rate of
 8 return on an adjusted Original Cost Rate Base ("OCRB") of \$83,064.

9 18. Oak Creek's proposed rates, as filed, would produce total operating revenue of \$121,565
 10 and operating income of \$49,737, for a 59.88 percent rate of return on an adjusted OCRB of \$83,064.
 11 The Company's request represents an increase of \$54,343, or 80.84 percent, over test year revenue of
 12 \$67,222.

13 19. Staff's recommended rates would produce total operating revenue of \$86,126 and
 14 operating income of \$10,863, for a 13.08 percent rate of return on an adjusted OCRB of \$83,064.
 15 Staff's recommendation represents an increase of \$18,904, or 28.12 percent, over test year revenues.

16 20. The rates and charges for the Company at present, as proposed by the Company, and as
 17 recommended by Staff are as follows:

	Present Rates	Proposed Rates Company	Staff
<u>MONTHLY USAGE CHARGE:</u>			
5/8" x 3/4" Meter	\$11.50	\$22.50	\$12.00
3/4" Meter	0.00	0.00	18.00
1" Meter	0.00	0.00	30.00
1 1/2" Meter	0.00	0.00	60.00
2" Meter	0.00	0.00	96.00
3" Meter	0.00	0.00	180.00
4" Meter	0.00	0.00	300.00
6" Meter	0.00	0.00	600.00

Gallons included in minimum	2,000	0	0
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Commodity Charge Per 1,000 Gallons

For 5/8-inch and 3/4 inch meter sizes

1	All gallons in excess of minimum	1.75	2.25	n/a
	Tier one -- zero gallons to 4,000 gallons	n/a	n/a	1.95
2	Tier two -- 4,001 to 12,000 gallons	n/a	n/a	2.10
3	Tier three -- All gallons over 12,000	n/a	n/a	2.35

For one inch meter and larger

4	Tier one -- 0 to 12,000 gallons	n/a	n/a	2.10
5	Tier two -- all gallons over 12,000	n/a	n/a	2.35

SERVICE LINE AND METER INSTALLATION CHARGES:
(Refundable pursuant to A.A.C. R14-2-405)

8	5/8" x 3/4" Meter	200.00	500.00	500.00
	3/4" Meter	0.00	575.00	575.00
9	1" Meter	0.00	650.00	650.00
	1 1/2" Meter	0.00	900.00	900.00
10	2" Meter	0.00	1,550.00	1,550.00
	3" Meter	0.00	2,200.00	2,200.00
11	4" Meter	0.00	3,400.00	3,400.00
12	6" Meter	0.00	6,175.00	6,175.00

SERVICE CHARGES:

14	Establishment	10.00	25.00	25.00
15	Establishment (After Hours)	10.00	35.00	35.00
	Reconnection (Delinquent)	10.00	25.00	25.00
16	Reconnection (After Hours)	n/a	35.00	35.00
	Meter Test (If Correct)	25.00	25.00	25.00
17	Meter Reread (If Correct)	5.00	15.00	15.00
	Deposit	*	*	*
18	Deposit Interest	n/a	1.00%	*
	Re-Establishment (within 12 months)	25.00	35.00	**
19	NSF Check	n/a	25.00	25.00
20	Deferred Payment (per month)	n/a	10.00%	*
	Late Fee	n/a	5.00	*

* Per Commission rule A.A.C. R14-2-403(B).

** Months off system times the monthly minimum per Commission rule A.A.C. R14-2-403(D).

21. Staff decreased Plant in Service by \$3,784 to remove plant items from the Wells and Springs account, the Pumping Equipment account and the Distribution, Reservoirs and Storage account. The Company had previously retired the plant items in question but had not removed them from its books. Staff also decreased Plant in Service by an additional \$20 to correct an incorrectly

1 entered invoice in the Water Treatment Equipment account. Staff's adjustments result in an overall
2 decrease of \$3,804, from \$160,840 to \$157,036 to Plant in Service. Staff's proposed adjustments to
3 Plant in Service are reasonable and we will adopt them.

4 22. Staff calculated Accumulated Depreciation by beginning with the balance of \$14,739
5 established in Decision No. 53439, adding depreciation expense of \$60,630 accumulated from year
6 1982 through year 2003, and subtracting plant retirements of \$3,784, for total Accumulated
7 Depreciation of \$71,585, a reduction of \$16,626 from the Company's proposed \$88,211. Deducting
8 the Accumulated Depreciation balance of \$71,585 from the Plant in Service balance of \$157,036
9 results in a Net Plant balance of \$85,451.

10 23. Staff reviewed and accepted the Company's Advances in Aid of Construction balance of
11 \$2,980 and Meter Deposits balance of \$6,592, for total advances of \$9,572.

12 24. Staff calculated a Cash Working Capital level of \$7,185 using the formula method based
13 on its recommended level of operating expenses.

14 25. Deducting Advances of \$9,572 and adding Cash Working Capital of \$7,185 to Net Plant
15 of \$85,451 results in an OCRB of \$83,064.

16 26. Staff's proposed adjustments to rate base are reasonable and should be adopted.

17 27. The Company did not file Reconstruction Cost New Less Depreciation rate base
18 schedules. Therefore, the Company's fair value rate base ("FVRB") is equal to its OCRB of \$83,064.

19 28. Staff proposed a net increase of \$382 to the Company's proposed total operating
20 expenses. Staff's adjustments included the following: A reduction to Office Supplies and Expense
21 of \$3,898 to reclassify office rent to the Rents account; a reduction to Outside Services in the amount
22 of \$1,837 to remove non-recurring expenses associated with the sale of a trailer; a reduction of \$200
23 to Miscellaneous Expense to remove expenses related to two gifts; a reduction of \$568 to
24 Depreciation Expense to reflect Staff's recommended level of depreciation expense; an increase of
25 \$157 to Water Testing Expense to reflect Staff's recommended level of water testing expense; an
26 increase of \$3,308 to the Rents account to reclassify office rent from Office Supplies and Expense in
27 the correct amount of \$3,900 and to remove \$592 for outside storage that will not be utilized in the
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1 future; and an increase of \$3,420 to reflect Staff's recommended amount of payroll taxes on the
2 Company's pro forma salary adjustment.

3 29. Staff's recommended net increase of \$382 to Operating Expenses resulted in
4 recommended total operating expenses of \$72,210. Staff's proposed adjustments to operating
5 expenses are reasonable and should be adopted.

6 30. Staff also removed \$22,528 of Non-Utility Income and \$14,278 of Miscellaneous Non-
7 Utility Expense from the Company's filing to remove non-water company income and expenses, for a
8 net adjustment of (\$8,250) to Other Income, leaving a balance of \$0. Subtracting total Operating
9 Expenses of \$72,201 from total Operating Revenue of \$67,222 resulted in a net loss for the Company
10 of \$4,988 during the test year.

11 31. Staff recommends revenue of \$86,126, which, with operating expenses of \$75,263, would
12 provide the Company with an operating income of \$10,863, for an operating margin of 12.61 percent
13 and a 13.08 percent rate of return on a rate base of \$83,064. Staff's recommended revenue
14 requirement is reasonable.

15 32. The Company proposed a single-tier rate structure with no gallons included in the
16 minimum usage charge. Staff recommends an inverted three-tier rate design with break-over points
17 at 4,000 and 12,000 gallons for 5/8-inch and 3/4-inch meter sizes, and no gallons included in the
18 minimum usage charge, in order to encourage efficient water use. For 1-inch and larger meter sizes,
19 Staff recommends an inverted two-tier rate design with a break-over point of 12,000 gallons, and no
20 gallons included in the minimum usage charge. Staff believes that its recommended tier breaks will
21 provide an economic incentive for customers to conserve. We find Staff's proposed rate design to be
22 reasonable and will adopt it.

23 33. During the test year, average monthly usage on the Company's 5/8" x 3/4" meters was
24 7,813 gallons, and median monthly usage was 5,237 gallons.

25 34. The Company's proposed rate schedule would increase the average 5/8" x 3/4" meter
26 monthly customer bill by \$18.41, or 84.96 percent, from \$21.67 to \$40.08, and would increase the
27 median monthly customer bill by \$17.12, or 99.71 percent, from \$17.17 to \$34.28.
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1 35. Staff's recommended rates would increase the average 5/8" x 3/4" meter monthly
2 customer bill by \$6.13, or 28.29 percent, from \$21.67 to \$27.81, and would increase the median
3 monthly customer bill by \$5.23, or 30.46 percent, from \$17.17 to \$22.40.

4 36. The Company is current on its property and sales taxes.

5 37. The Company is not located within an Active Management Area ("AMA") as defined by
6 the Arizona Department of Water Resources ("ADWR"), so the Company is not subject to ADWR's
7 conservation rules.

8 38. Staff reports that the Arizona Department of Environmental Quality ("ADEQ") has
9 reported no deficiencies and has determined that the Company's system is currently delivering water
10 that meets the water quality standards required by Arizona Administrative Code Title 18, Chapter 4.

11 39. The Company's system consists of a Main Well drilled in 1972 that pumps at 250 gallons
12 per minute, a 2,500 gallon pressure tank and two booster pumps, a 50,000 gallon storage tank, and a
13 distribution system consisting of 9,270 feet of 4-inch and 13,900 feet of 6-inch polyvinyl-chloride
14 water mains. Water from the Main Well is treated by a dry pellet chlorinator. All customers are
15 currently served using 5/8 x 3/4 inch meters. An artesian well is also located on the site of the Main
16 Well, but it was taken out of service over 20 years ago and is not connected to the system. The
17 Company also owns an 11,000 gallon storage tank that is not in service.

18 40. The August 11, 2004 Engineering Report attached to the October 18, 2004 Staff Report
19 states that the current system can adequately serve approximately 104 service connections, but that it
20 does not have adequate storage capacity for its present customer base of 245 connections. Staff states
21 that the Company could add either another well source or another storage tank to its system to resolve
22 the inadequate storage capacity. The Engineering Report contains additional suggestions for the
23 Company's consideration on this issue. Staff recommends that the Company be required to submit a
24 plan to resolve the inadequate storage capacity to the Director of the Utilities Division within 365
25 days of a Decision in this matter. This is a reasonable recommendation and it should be adopted.

26 41. The Engineering Report states that the Company's last monitoring results showed that its
27 Main Well had an arsenic level of 10 parts per billion ("ppb"), which is just at the United States
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Environmental Protection Agency's ("EPA") new maximum contaminant level ("MCL") for arsenic that will go into effect on January 23, 2006. Staff is recommending that the Company be required to file a plan of action addressing the arsenic issue by March 30, 2005, if the Company's next arsenic monitoring result shows an arsenic level greater than 10 ppb. It was unclear when the Company's next arsenic monitoring result is due, however. The Company does not currently exceed the EPA's new MCL. We will therefore require that the Company notify Staff of the date of its next required arsenic monitoring test. We will also require the Company to file a plan of action addressing the arsenic issue within 60 days of receiving its next required arsenic monitoring results only if those results show that the Company's water exceeds the EPA's new MCL.

42. Staff recommended approval of Staff's recommended rates and charges, and that the Company be authorized to collect from its customers a proportionate share of any privilege, sales or use tax.

43. Staff also recommended approval of the Company's Curtailment Plan Tariff which was labeled as Attachment CPT to the Engineering Report attached to the October 18, 2004 Staff Report.

44. Staff further recommends that the Company be ordered to:

- (a) docket with the Commission a schedule of its approved rates and charges within 30 days of this Decision;
- (b) install a wellhead meter and docket an affidavit confirming such installation within one year of this Decision;
- (c) submit a plan describing how it will resolve its inadequate storage capacity within one year of this Decision; and
- (d) use the depreciation rates delineated in Table B of the Engineering Report attached to the October 18, 2004 Staff Report on a going forward basis.

45. Staff's recommendations are reasonable and should be adopted with the modifications described herein.

CONCLUSIONS OF LAW

1. Oak Creek Public Service is a public service corporation within the meaning of Article XV of the Arizona Constitution and A.R.S. §§ 40-250 and 40-251.

2. The Commission has jurisdiction over the Company and the subject matter of the application.

3. Notice of the application was given in accordance with the law.

4. Staff's recommended rates and charges are reasonable and should be approved.

5. Staff's recommendations, as set forth in Findings of Fact Nos. 9, 40, 42, 43 and 44, are reasonable and should be adopted.

ORDER

IT IS THEREFORE ORDERED that Oak Creek Public Service Company shall file, within sixty days, an application for transfer of the Company's Certificate of Convenience and Necessity and its assets to a designated legal business organization.

IT IS FURTHER ORDERED that Oak Creek Public Service Company shall file, by January 31, 2005, revised rate schedules setting forth the following rates and charges:

MONTHLY USAGE CHARGES:

5/8" x 3/4" Meter	\$ 12.00
3/4" Meter	18.00
1" Meter	30.00
1 1/2" Meter	60.00
2" Meter	96.00
3" Meter	180.00
4" Meter	300.00
6" Meter	600.00

Gallonage Charge – per 1,000 Gallons

For 5/8 inch and 3/4 inch meters:

Tier one – 0 to 4,000 gallons	\$ 1.95
Tier two – 4,001 to 12,000 gallons	2.10
Tier three – all gallons over 12,000	2.35

For one inch meter and larger:

Tier one – 0 to 12,000 gallons	\$ 2.10
Tier two – all gallons over 12,000	2.35

SERVICE LINE AND METER INSTALLATION CHARGES:

(Refundable pursuant to A.A.C. R14-2-405)

5/8" x 3/4" Meter	\$ 500.00
3/4" Meter	575.00
1" Meter	650.00
1 1/2" Meter	900.00
2" Meter	1,550.00
3" Meter	2,200.00
4" Meter	3,400.00
6" Meter	6,175.00

SERVICE CHARGES:

Establishment	\$ 25.00
Establishment (After Hours)	35.00
Reestablishment (Within 12 Months)	**
Reconnection (Delinquent)	25.00
Reconnection (After Hours)	35.00
Meter Test (If Correct)	25.00
Meter Reread (If Correct)	15.00
Deposit	*
Deposit Interest	*
NSF Check	25.00
Deferred Payment (per month)	*

* Per Commission rule A.A.C. R14-2-403(B).

** Months off system times the monthly minimum per Commission rule A.A.C. R14-2-403(D).

IT IS FURTHER ORDERED that the above rates and charges shall be effective for all service provided on and after the first day of the month following the date that Oak Creek Public Service Company's application for the transfer of the Company's Certificate of Convenience and Necessity and its assets to a designated legal business organization is found sufficient.

IT IS FURTHER ORDERED that Oak Creek Public Service Company shall notify its customers of the revised rates and charges authorized herein, and their effective date, in a form acceptable to the Commission's Utilities Division Staff, by means of an insert in its next regularly scheduled billing following the date that the application for the transfer of the Certificate of Convenience and Necessity is found sufficient.

1 IT IS FURTHER ORDERED that Oak Creek Public Service Company shall file with the
2 Commission, within 60 days from the effective date of its new rates, a copy of the notice of the new
3 rates and charges it sends to its customers.

4 IT IS FURTHER ORDERED that Oak Creek Public Service Company shall collect from its
5 customers, in addition to its regular rates and charges, a proportionate share of any privilege, sales or
6 use tax.

7 IT IS FURTHER ORDERED that the Curtailment Plan Tariff which is labeled as Attachment
8 CPT to the Engineering Report attached to the October 18, 2004 Staff Report is hereby approved.

9 IT IS FURTHER ORDERED that Oak Creek Public Service Company shall file, within thirty
10 days, a copy of the Curtailment Plan Tariff approved herein.

11 IT IS FURTHER ORDERED that Oak Creek Public Service Company shall file, within thirty
12 days, with the Director of the Commission's Utilities Division, documentation verifying the date of
13 its next required arsenic monitoring test.

14 IT IS FURTHER ORDERED that in the event Oak Creek Public Service Company's next
15 required arsenic monitoring result shows that its water exceeds the EPA's new MCL, Oak Creek
16 Public Service Company shall file a plan of action for addressing the arsenic issue within sixty days
17 of receiving that result.

18 IT IS FURTHER ORDERED that Oak Creek Public Service Company shall, within 365 days:
19 1) install a wellhead meter on its Main Well; 2) docket an affidavit confirming such installation;
20 and 3) submit a plan to the Commission's Utilities Division Director describing how it will resolve
21 its inadequate storage capacity.

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IT IS FURTHER ORDERED that Oak Creek Public Service Company shall, on a going forward basis, use the depreciation rates delineated in Table B of the Engineering Report attached to the October 18, 2004 Staff Report.

IT IS FURTHER ORDERED that this Decision shall become effective immediately.

BY ORDER OF THE ARIZONA CORPORATION COMMISSION.

CHAIRMAN

COMMISSIONER

COMMISSIONER

COMMISSIONER

COMMISSIONER

IN WITNESS WHEREOF, I, BRIAN C. McNEIL, Executive Secretary of the Arizona Corporation Commission, have hereunto set my hand and caused the official seal of the Commission to be affixed at the Capitol, in the City of Phoenix, this 22nd day of Jan., 2005.

BRIAN C. McNEIL
EXECUTIVE SECRETARY

DISSENT _____

DISSENT _____

TW:mlj

1 SERVICE LIST FOR: OAK CREEK PUBLIC SERVICE

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